

## Message Text

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PAGE 01 KABUL 00141 080437Z

22-11

ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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FM AMEMBASSY KABUL

TO SECSTATE WASHDC PRIORITY 5691

INFO USOFFICE RFC PARIS

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E.O. 11652: NA

TAGS: ECON, EFIN, AF

SUBJ: AFGHAN GOVERNMENT (GOA) SUSPENDS BANK PURCHASING  
OF FOREIGN EXCHANGE

1. THE EMBASSY RECEIVED WORD FROM ITS LOCAL BANK (PASHTANY TEJARATY) THE MORNING OF JANUARY 6 THAT, BY ORDER OF THE CENTRAL BANK, THEY HAD CEASED PURCHASING FOREIGN EXCHANGE FOR THE NEXT THREE DAYS. NO EXPLANATION WAS GIVEN. EMBOFF CALLED FAQIR MUNIF, DEPUTY GOVERNOR OF THE CENTRAL (D'AFGHANISTAN) BANK, WHO CONFIRMED THAT INSTRUCTIONS HAD BEEN ISSUED TO ALL AFGHAN BANKS TO SUSPEND PURCHASING OF FOREIGN EXCHANGE TO ALLOW AN ADJUSTMENT OF THE EXCHANGE RATE (BANKS ARE STILL MAKING FOREIGN EXCHANGE SALES). WHEN ASKED FOR THE EXTENT OF THE ADJUSTMENT, HE SAID THAT WHEN BANKS REOPENED ON SATURDAY, JANUARY 10, THEIR RATE WOULD CONFORM TO THE OPEN MARKET RATE IN THE KABUL MONEY BAZAAR. HE FURTHER SAID THAT THE GOVERNMENT HAD DECIDED THAT IT HAD MAINTAINED AN ARTIFICIAL SEPARATION BETWEEN MARKET AND OFFICIAL RATES FOR TOO LONG, AND THAT THE TWO RATES MUST NOW CONFORM.

2. FOR THE PAST SEVERAL MONTHS, THE OPEN MARKET RATE HAS BEEN  
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PAGE 02 KABUL 00141 080437Z

SIGNIFICANTLY BELOW THE OFFICIAL BANK RATE. THE BANKS HAVE

SOLD AFGHANIS AT A RATE OF AFS 57, WHILE THE MARKET SELLING RATE HAS FLUCTUATED BETWEEN AFS 52 AND AFS 55. THE OPEN MARKET RATE IMMEDIATELY PRECEDING GOA ACTION WAS AFS 53.5 FOR CASH, 54 FOR CHECKS. BOTH BANK OFFICIALS AND MONEY MARKET DEALERS, HOWEVER, HAVE ADMITTED THAT THE MARKET RATE HAS BEEN ABNORMALLY LOW. MOHAMMAD HAKIM, ACTING GOVERNOR OF THE D'AFGHANISTAN BANK, HAS REPEATEDLY STATED THAT A REASONABLE ECONOMIC LEVEL FOR THE AFGHANI WOULD BE BETWEEN 60 AND 70 TO THE DOLLAR, PROBABLY RESTING AROUND 67 AS AN AVERAGE. THE MONEY MARKET DEALERS HAVE MAINTAINED IN TURN THAT THE RATE WAS LOW, INTER ALIA, BECAUSE THE CENTRAL BANK HAS BEEN CURTAILING THE AVAILABILITY OF AFGHANI BANKNOTES. BANK OFFICIALS DENY THIS. THEY ADMIT TO PLACING LIMITS ON THEIR PURCHASES OF FOREIGN EXCHANGE FROM MERCHANTS, BUT ONLY TO ENFORCE HISTORICAL LEVELS AND AVOID PROFITEERING ON THE DIFFERENCE IN OFFICIAL AND MARKET RATES.

3. THE MARKET'S REACTION TO THE GOA ANNOUNCEMENT WAS SWIFT AND SURPRISING. BY NOON OF JANUARY 6 THE MARKET RATE FOR DOLLAR CHECKS HAD JUMPED FROM 54 TO 56. THE MARKET DEALERS EXPLAINED THAT THE AFGHANI HAD BEEN DECLINING "IN THE LAST SEVERAL DAYS" IN IRANIAN AND PAKISTANI BLACK MARKETS, AND THAT THE NEWS THAT THE BANKS WOULD CONFORM TO THE MARKET RATE CONSTITUTED, FOR THEM, SEMI-OFFICIAL RECOGNITION OF THE OPEN MARKET, AND THUS GAVE THEM THE CONFIDENCE TO FOLLOW THE REGIONAL MARKETS.

4. FAZL KHAIRZADA, VICE PRESIDENT OF THE BANKE MILLE, AFGHANISTAN'S LARGEST COMMERCIAL BANK, STATED THAT THE THREE DAY HIATUS WAS ONLY TO GIVE THE BANKS TIME TO ADJUST AND ESTABLISH METHODS OF DETERMINING MARKET RATES IN A TIMELY FASHION. HE CONFIRMED THAT HIS BANK WOULD BE ALLOWED TO DEAL IN FOREIGN EXCHANGE (A PRIVILEGE TEMPORARILY SUSPENDED SOME MONTHS AGO), AND WOULD BE USING THE MARKET RATE AS ITS BASE. HE STATED THAT THE PURPOSE OF THE GOVERNMENT ACTION WAS TO ENCOURAGE LEGITIMATE BUSINESSMEN TO RE-ENTER THE BANKING CHANNELS, AND EMPHATICALLY STATED THAT THIS ACTION WAS NOT INTENDED AS AN ATTACK ON THE MARKET SINCE THE MARKET IS SEEN AS THE EASIEST MEANS FOR THE GOVERNMENT TO DETERMINE SUPPLY AND DEMAND FORCES ACTING ON THE AFGHANI. HE LIMITED OFFICIAL USE

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PAGE 03 KABUL 00141 080437Z

EXPECTS BUSINESS AS USUAL, BUT WITH MORE SHORT-TERM RATE FLUCTUATION AND LESS DISTORTION OF MARKET FORCES.

5. COMMENT: GOA ACTION IS PROBABLY ONE OF A SERIES WHICH CAN BE EXPECTED OVER THE COMING MONTHS AS NEW REGULATIONS ARE ISSUED FOR NATIONALIZATION OF THE BANKING SECTOR. WE DO NOT RPT NOT BELIEVE MISSION OPERATIONS WILL BE AFFECTED UNLESS PURCHASING IS SUSPENDED OVER A LONGER PERIOD THAN EXPECTED.

HAKIM HAS ALSO ASSURED EMBOFFS THAT, IN ANY EVENT, NEEDS  
OF DIPLOMATIC MISSIONS WILL BE MET.  
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